

JIM LEHRER: The Obama administration rolled out a broad expansion today of the financial regulatory system. Treasury Secretary Timothy Geithner outlined a system to control hedge funds, large insurance companies, and others outside the banking industry.

NewsHour correspondent Kwame Holman has our lead story report.

REP. BARNEY FRANK (D), Massachusetts: The Committee on Financial Services will now convene.

KWAME HOLMAN: Secretary Geithner was on Capitol Hill for the second time this week. He said the country needs new regulations to fix a system that's "too unstable and fragile."

TIMOTHY GEITHNER, Treasury Secretary: Not modest repairs at the margin, but new rules of the game. And the new rules must be simpler and more effectively enforced. They must produce a more stable system...

KWAME HOLMAN: Geithner laid out the stakes early in a hearing before the House Financial Services Committee.

TIMOTHY GEITHNER: What we need is better, smarter, tougher regulation, because we've seen that the costs of these weaknesses and gaps are catastrophic to the system as a whole.

And we have an enormously complicated system in the United States, with regulation at the federal and state level, multiple bank supervisors, multiple authorities, and it just didn't work. It did not deliver what it has to deliver.

KWAME HOLMAN: Specifically, the administration wants to rein in those firms, such as AIG, that ended up putting entire sectors of the economy at risk.

The proposal would: create a regulatory regime to oversee systemic risk in the economy; for the first time, complex financial instruments, such as credit default swaps that brought down AIG, would be regulated, and not just at financial services firms; the government also would be empowered to seize large insurance companies, hedge funds, and the like, if they endanger the economy. Currently, only banks are subject to federal takeover.

David Scott, Democrat of Georgia, asked who would exercise that new and broadened authority.

REP. DAVID SCOTT (D), Georgia: Where in the federal government should that power rest? Should it be with you in Treasury? Should it be in the Fed or perhaps in FDIC?

TIMOTHY GEITHNER: Well, what we're proposing to do is build on the model established for the FDIC for banks and thrifts. That model, we've had a lot of experience with it. There's a whole range of important checks and balances in that system to limit discretion, so the existence of this does not increase moral hazard.

KWAME HOLMAN: Some Republicans complained regulators could gain too much power. California's John Campbell wondered if the administration foresaw some new disaster ahead that's driving the proposals.

REP. JOHN CAMPBELL (R), California: Are you expecting some additional non-bank failures? Are you concerned about that?

TIMOTHY GEITHNER: You know, we're still in the midst of a very challenging period. And so I think it would be in the interests of the country for Congress to do everything they can to make sure we got broader tools so we can manage this effectively.

KWAME HOLMAN: The secretary acknowledged there's no guarantee the plan will forestall future trouble, but it could make problems less harmful and less expensive.

TIMOTHY GEITHNER: Nothing we do here today over the next six months will offer the prospect of preventing all future financial crises. We can make sure that, when they happen in the future, we can act more quickly, more effectively to contain the damage, to put a fire break around the most weaker parts of the system, to not allow the fire to jump.

KWAME HOLMAN: Earlier, the committee voted to let Secretary Geithner and others decide if executive bonuses at AIG and similar firms are "unreasonable or excessive." The drive to impose punitive taxes on the bonuses has slowed, but House Speaker Nancy Pelosi said today the message has been sent.

REP. NANCY PELOSI (D-CA), Speaker of the House: We want to make sure that what we are doing makes the distinctions between the abuses and the insult to the taxpayer of an AIG employee -- executive who drove his company into the ground, costing over \$100 billion of dollars of taxpayer dollars, and then taking taxpayer dollars as his reward for failure. That is something quite different than the normal compensation practices that have bonuses and performance as part of it.

KWAME HOLMAN: The committee's proposal to restrict bonuses could come to the full House within days. And the administration also has sent Congress a 61-page bill containing the regulatory changes Secretary Geithner outlined today.